

## FACT SHEET ECONOMIC IMPACT ANALYSIS

Ex-Im Bank is required by law to assess whether its loans and guarantees are likely to cause substantial direct injury to U.S. industry, and not to extend such support if it would have a net adverse economic impact on U.S. production and employment. What follows is an explanation of Ex-Im Bank's current legislative mandate on economic impact assessments and a description of Ex-Im Bank's procedures for implementing this requirement.

Ex-Im Bank will consider the potential injury caused by all transactions under its loan, guarantee, or insurance programs. Ex-Im Bank's Country Risk Analysis Division is responsible for carrying out economic impact analyses.

Congressional debates on the economic impact provisions make it clear that concern is focused on the possibility of substantial harm to U.S. production and employment, but there is no desire to make Ex-Im Bank less responsive or competitive by slowing down the processing of cases not likely to cause injury. While historically all single sale cases have been examined for economic impact relevance, none of the evaluations of small cases has ever disclosed any potential for substantial injury.

Ex-Im Bank will now consider protective trade policy actions (anti-dumping and countervailing duties) taken by other federal agencies. A list of actions taken by these agencies can be found on the U.S. Department of Commerce's website located at [http://www.ita.doc.gov/import\\_admin/records/stats/](http://www.ita.doc.gov/import_admin/records/stats/). Under these new procedures, Ex-Im Bank will not support any transaction to a buyer found guilty of engaging in unfair trade practices. An exception to the trade policy criteria can be made if the applicant can show that denial of Ex-Im Bank support for a particular transaction would extraordinarily harm the applicant and/or the U.S. economy.

Ex-Im Bank's economic impact analysis procedures are based on two principles:

1. The procedures should be applied only for projects which increase foreign output which would **directly** compete with U.S. production, where Ex-Im Bank support has a **significant** role in allowing the project to go ahead, and where the foreign expansion is large enough to cause a **substantial** injury to U.S. industry.
2. For a case where all three of the conditions stated in paragraph (1) are met, the economic benefits of the case must be shown to outweigh the potential injury.

A project will be judged to be **direct** competition if the increased output from that project is likely to:

- (a) compete with U.S. production of the same, similar, or competing commodity in the country where the project is located, in the United States, or in other countries; or
- (b) be in surplus on world markets at the time the resulting commodity will be first sold.

Ex-Im Bank is considered to have a **significant** role in the project if the Bank's financing covers an important component of project costs and the U.S. goods and services supported directly and substantively impact on the proposed expansion. To implement this concept, Ex-Im Bank has established a guideline that its support of 10 percent or more of the total project cost normally

constitutes significant support.

When criterion (a) above is satisfied, Section 2(e)(3) of the Export-Import Act specifies that Ex-Im Bank support will cause **substantial** injury if the amount of the capacity for production established or the amount of the increase in such capacity expanded equals or exceeds one percent of U.S. production.

The legislative history makes it clear that the likelihood of a project going ahead with the support of non-U.S. suppliers is not to be considered in the analysis of net economic impact on the United States.

Since only a fraction of the exports the Ex-Im Bank is asked to support has the potential of causing substantial direct injury, the first step of this process is a preliminary screening procedure to provide quick clearance for the majority of applications. An Ex-Im Bank economist is assigned to each Final Commitment application. After determining that there are no trade policy actions imposed against the buyer in the transaction, using guidelines which are periodically updated by the Country Risk Analysis Division, the economist determines whether the output from the project has any potential for substantial direct injury to U.S. production and employment.

If it is determined that production resulting from the transaction will compete with current U.S. production, Ex-Im Bank will notify the applicant and provide a copy of the Bank's **Procedure for Economic Impact Analysis**. At the same time, the economist will solicit the views of the parties or persons who may be substantially injured by the transaction. Their views will be included in the memorandum which is presented to the Ex-Im Bank Board of Directors when it considers an application.

## **MORE INFORMATION**

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